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SINO-SOVIET ECONOMIC RELATIONS SINCE DECEMBER 1960

Summary and Conclusions

In the seven months since the Moscow Manifesto of 6 December 1960, Sino-Soviet economic relations have continued to be marked by a spirit of reserve and caution in contrast to the warm "comradely" spirit prevailing when the USSR was fully behind the forced-draft industrialization program of its Communist Chinese ally. The USSR, which had contributed greatly to China's economic difficulties by its withdrawal of industrial technicians in mid-1960, has taken no further measures that would add to China's troubles; but, on the other hand, the USSR has taken no major positive steps — measured in relation to China's need and Soviet ability to aid — to assist its hard-pressed ally.

In these seven months there has been no return of Soviet technicians to Communist China, with the possible exception of scattered individuals temporarily dispatched to China to repair machinery. No major steps of any particular significance have been taken by the USSR to relieve the grave food shortages in China, and China has turned to Canada and Australia for 5 million tons of grain to be delivered in 1961; this grain must be paid for from China's limited reserves of foreign exchange. The USSR has not extended major new credits to China, although under the Sino-Soviet trade protocol of April 1961, the USSR agreed to (1) put off payment of the $320 million adverse trade balance run up by China largely in 1960 and (2) loan China 500,000 tons of sugar, worth about $40 million. Finally,

during these seven months China has continued to contest Soviet leadership in the Bloc by furnishing economic assistance to Albania and to step up competition for influence in North Korea, North Vietnam, and Outer Mongolia.

Given the absence of Soviet technicians in Communist China, the recent low level of Chinese exports to the USSR, and the absence of large new credits from the USSR, shipments of machinery and equipment from the USSR to China have been declining sharply; in the special case of deliveries of military end-items and other deliveries to military consignees, the evidence suggests that deliveries have been negligible since January 1961. Precise estimates cannot be made, but it is probable that in 1961 China's imports of machinery and equipment will be no more than half the level maintained in 1959 and in 1960.

The first harvests of 1961 include a poor wheat and a fairly good early rice harvest. Prospects for the remainder of the year cannot be gauged accurately as yet, but if Communist China experiences a third consecutive year of poor harvests in 1961, the first half of 1962 may well become a period of desperate food shortages. In such circumstances Sino-Soviet economic relations would enter a new phase; a "gamesmanship" struggle might be imagined in which China delays asking for aid and the USSR delays offering aid until the last possible moment. In the present situation, however, the patient is undernourished but he is not on the critical list.

Sino-Soviet economic relations had deteriorated largely for political reasons and therefore little improvement can be expected until underlying political

sources of dissension are removed. Because both sides appear to have frozen their political positions for the time being, the outlook is that Moscow will continue to behave in an "uncomradely" manner and that Peking will continue to contest Soviet authority.

1. Developments Since December 1960

a. Trade

In late 1960 the future of Sino-Soviet trading relations seemed highly uncertain. The pullout of Soviet technicians in mid-1960 had made it necessary to revise the schedule for deliveries of Soviet machinery, but the strained state of political relations complicated the process of formulating new plans. Soviet POL deliveries, a critical import item for Communist China, dropped sharply, for reasons that are still unclear. By October Peking was negotiating with Western suppliers for limited quantities of a few items, such as POL, for which it previously had relied on Bloc suppliers.

The uncertainty surrounding Sino-Soviet trade was largely dispelled during early 1961 when a businesslike modus vivendi was worked out and a trade protocol signed on 7 April in Moscow. The USSR resumed regular, large-scale deliveries of POL early in 1961, and machinery has continued to move although in greatly reduced quantities. A dearth of information about shipments of military items and other items to military consignees after January 1961 suggests that shipments of such items have been negligible.

It is estimated that the value of Chinese Communist imports from the USSR will drop from $955 million in 1959 (the last year for which detailed information is available) to about $500 million in 1961. About $120 million of this will have to be spent on POL products. Chinese exports to the USSR are expected to total about $700 million, as compared with $1,100 million in 1959.

Under the trade protocol for 1961, China plans to export to the USSR no foodstuffs and to reduce shipments of inedible agricultural products like hog bristles. In 1959 China had exported $275 million worth of rice, soybeans, meat, and other foodstuffs to the USSR.

The USSR appears to have ceased giving Communist China the preferential treatment accorded China before mid-1960. It had been Soviet policy in the past to supply China pretty much what it wanted, short of missiles and nuclear weapons, although it did assist China to begin building a nuclear energy industry. By and large, China was able to pay with proceeds from exports for Soviet goods, but when it couldn't, it was able to get Soviet long-term loans or short-term credits. The new relationship has changed all this. It is believed that Moscow now gives Peking much less freedom of choice in selecting Soviet goods, at least in the military field, and is unwilling to grant Peking liberal credit funds for future use.

b. Soviet Support for Industrial Development in Communist China

Under agreements made before 1960, the USSR had committed itself to playing a major role in the future industrialization of Communist China. Specifically, the USSR had promised to supply China with the necessary machinery, blueprints, and experts to build and equip 291 major industrial plants by 1967. When this program was disrupted in mid-1960 by the withdrawal of all Soviet industrial technicians working in China, only half of these plants had been completed. With Peking refusing to accept Soviet political leadership Moscow

has remained adamant in its refusal to return technicians, at least on any substantial scale; as a result, the industrialization program has been seriously slowed down, especially in the fields of military industries and atomic energy, which were exceptionally dependent on the services of Soviet technical advisers.

The Soviet aid program, or what remained of it, was the chief topic of "economic" and "technical-scientific" agreements signed in Moscow on 19 June 1961. Neither the communique signed by both parties nor Chinese commentary on the agreements mentioned Soviet aid projects or acknowledged that Soviet "aid" still exists in any form. Soviet officials, however, still insist that Soviet aid continues. One Soviet official (S.A. Skachkov, chairman of the Committee for Foreign Economic Relations) claimed that the agreements provide for the USSR to "give technical assistance to the CPR Government from 1961 to 1967 in construction or expansion of large enterprises of metallurgical, chemical, oil refinery, and machine building industries and in construction of hydroelectric plants." The official did not further elaborate on the nature of this "assistance".

c. Financial Arrangements

In the protocol for Sino-Soviet trade in 1961, signed on 7 April 1961, the USSR agreed to let Communist China defer payment on a $320 million debt that had accumulated on the Sino-Soviet trading account, largely in 1960. (The entire short-term debt was $380 million; it is unknown why Moscow funded only $320 million of the total). This debt, without interest, is to be prepaid by 1965. In acknowledgement of Chinese difficulties, repayment of most of the debt is

deferred until after 1962. The repayment schedule is 1961-0; 1962, $9 million; 1963, $36 million; 1964, $128 million; and 1965, $128 million.

The USSR also provided token assistance in the form of a loan of 500,000 tons of sugar worth $40 million, to be delivered by August 1961; this loan is to be repaid in the period 1964-67. The USSR apparently did not defer the Chinese obligation to pay the amount due in 1961 on long-term debts incurred from 1950 through 1957, largely for purchases of military items. The amount due in 1961 probably is $175 million.

The Soviet decision to convert the short-term debt of $320 million into a long-term debt was necessary to provide a realistic basis for continued trade. Agricultural difficulties in Communist China have been so serious that China's export potential to the USSR in 1961 is believed to have been reduced to about $700 million. An attempt to force China to meet all debt obligations that were due in 1961 ($555 million) would have been tantamount to breaking trade relations.

Communist China is in a predicament, unable to get or perhaps unwilling to ask for adequate assistance from the USSR or other industrialized nations of its own power bloc, and unwilling to turn to the West for substantial relief. In any case, its prospects for long-term aid from the West are uncertain.

d. Status of Technicians

Reliable observations of Soviet personnel in Communist China, made through the end of June1961, indicate that no full-time Soviet technical

personnel have returned. Most Soviets remaining in China are non-technical persons like traders, diplomats, and press representatives. In recent months there have been reports of a few Soviet technicians in China. These technicians were probably there on temporary duty, serving as Soviet ~~manufacturers'~~ factory representatives or as repairmen sent to work on Soviet equipment.

E. Sino-Soviet Economic Relations Over the Next Year

a. The General Outlook

Sino-Soviet economic relations have remained at a cold businesslike level since December 1960. They had deteriorated largely for political reasons and therefore little improvement can be expected until underlying political sources of dissension are removed. Because both sides appear to have frozen their political positions for the time being, the outlook is that Moscow will continue to behave in an "uncomradely" manner with respect to Chinese Communist economic difficulties and that Peking will continue to contest Soviet authority on ideological and strategic matters. That this is the outlook is also indicated by several economic signs, namely:

(1) the continuing absence of Soviet technicians.

(2) the terms of the 1961 trade agreement, in which the USSR failed to provide new large-scale help to its hard-pressed ally.

(3) The substantial Chinese Communist aid to Albania after that country had sided with China in the political dispute against the USSR.

b. The Outlook If the Economic Crisis Deepened

A deepening of the economic and food crisis might put an end to the impasse, either by forcing Communist China to surrender a large measure of its independence and seek additional aid on Moscow's terms, or by forcing Moscow to provide further aid to forestall a collapse of the Peking regime. A "gamesmanship" situation may develop in which China defers asking for aid and the USSR defers offering aid as long as possible. The stubbornness with which both sides responded to the Chinese food crisis early in 1961 suggests that the situation would have to worsen considerably -- far more than presently anticipated -- to cause either side to budge.

c. Prospects for the Return of Soviet Technicians

The prospects for the return of large numbers of Soviet technicians to Communist China are poor. Presumably the question of their return must have been at least tentatively decided in order to reach agreements on economic and technical-scientific cooperation. Six weeks have elapsed since the agreements were signed and no technicians have been observed back in China, although non-technical Soviet personnel continue to be observed. The public statements issued in connection with those agreements, moreover, support the thesis that the USSR is not ready to return any technicians on a full-time basis. Unlike the communiques issued on previous agreements on Soviet industrial support to China (1950, 1953, 1954, 1956, and 1958, 1959) the communique issued on this one did not mention Soviet technical assistance. A strong hint that, in view

of the Chinese position, the Soviet decision on technicians was negative is provided in an apparently needling speech by Mikoyan, First Deputy Chairman of the Soviet Council of Ministers, at a reception on 21 June given by the Chinese Communist Ambassador in Moscow. Mikoyan noted that "it is pleasant that China has brought about a great economic growth and that it is not only economy, science, and technology which have grown but also qualified cadres, who now are able to compete with scientists and engineers of other countries of the world."

a. Prospects If Political Agreement Were Reached

If Moscow could reach a political accord with Peking, it probably would follow through with an economic aid program that would ease considerably both short-term and long-term economic difficulties in Communist China. For the short-run China needs external help to ease its financial and food difficulties. Although the USSR lacks large reserves of foodgrain and foreign exchange that it could readily spare, it could provide important relief by giving China credit that would allow China to take a portion of the goods now being exported to the USSR and export them to Non-Communist countries for foreign exchange. The USSR also could return technical advisers to help restore order and efficiency to China's industries and construction program. For the long-run the USSR could offer China a long-term loan for equipment, help China work out a rational economic development plan, oversee its execution, and increase the training of Chinese engineers, managers, and technicians.

Although Moscow probably would be glad to do all these things under the proper circumstances, it has given notice that it will not resume the Soviet aid program in its original form. The original Chinese programs in line with the Chinese desire for autarky, was heavily weighted with projects for developing military and atomic energy industries, industries that are technologically advanced by existing Chinese standards. The Soviet view was made clear to the Chinese at the Moscow Conference when Khrushchev, in a speech clearly aimed at his Chinese adversaries, reviewed Soviet principles for building up the socialist camp by coordinating bloc economies. This speech, which was published in January 1961 with a few emendations, discussed the duties of the countries "that make up the world socialist system" to work for international division of labor in order to realize the advantages of socialism more quickly and adequately. It would not appear, however, that the USSR expects the economy of China to be dovetailed with other Bloc economies in the close and detailed fashion that is developing among the Soviet and European Satellite economies. Under these principles, China logically would concentrate on economic areas that were labor-intensive and technologically less complex, such as agriculture, light industry, and certain types of metallurgical, chemical, and machine-building industries. At this stage of development, China would be expected to leave technological complex fields of endeavor, such as delivery systems, for nuclear weapons, to more advanced members of the Bloc.

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